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Fund of the United Nations International Drug Control Programme

Financial report and audited financial statements

for the biennium ended 31 December 1997 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-third Session
Supplement No. 5I (A/53/5/Add.9)

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Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Abbreviations

ACFR	Therapeutic Community Casa Rosetta
AENOC	Association of the European National Olympic Committee
AMHS	Addiction and Mental Health Services Corporation
CCLEC	Caribbean Customs Law Enforcement Council
CCSA	Canadian Center on Substance Abuse
CE	Council of Europe
CECAFEC	Ecuadorian Centre for Training of Street Educators
CEIS	Italian Centre of Solidarity
CERID	Center for the Study of International Relations and Development
CESE	Educational Center for Drug Control, Bolivia
CICAD	Inter-American Drug Abuse Control Commission
CICP	Center for International Crime Prevention
ECSWPR	European Centre for Social Welfare Policy and Research
ENDA	Environmental Development Action
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
FAO	Food and Agriculture Organization of the United Nations
ICAA	International Council on Alcohol and Addictions
ICPO/Interpol	International Criminal Police Organization/Interpol
IFND	International Federation of NGOs against Drug Abuse
ILANUD	United Nations Latin American Institute for the Prevention of Crime and the Treatment of Offenders
ILO	International Labour Organization
IPS	International Press Service
NCA	Norwegian Church Aid
NCSWT	National Council on Social Welfare of Thailand
OAS	Organization of American States
OAU	Organization of African Unity
RFHL	Swedish Association for Help and Assistance to Drug Abusers
SAPS	South African Police Service Dog School
SESI	Social Service Industry, Brazil

UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
UNV	United Nations Volunteers
UWI	University of the West Indies
WCO	World Customs Organization
WHO	World Health Organization

Letters of transmittal

19 May 1998

Sir,

In accordance with financial regulation 11.4, I have the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 1996–1997 ended 31 December 1997.

Copies of these financial statements are made available to the Commission on Narcotic Drugs and the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Pino **Arlacchi**
Executive Director
United Nations International
Drug Control Programme

The Chairman of the Board of Auditors
United Nations
New York

15 July 1998

Sir,

I have the honour to transmit to you the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 1996–1997 ended 31 December 1997, which were submitted by the Executive Director. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Executive Director

1. The Executive Director has the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 1996–1997 ended 31 December 1997, in accordance with rule 111.4 of the Financial Rules of the United Nations and General Assembly resolution 46/185 C of 20 December 1991.

Financial situation

2. During the biennium 1996–1997, the Programme consolidated its catalytic role in the field of international drug control. This was done while maintaining a balanced approach between regional and sectoral activities and adjusting to a decline in income, expenditure and fund balance. In 1996–1997, total income amounted to $103,295,500 and expenditure to $104,354,752, reflecting a reduction of 21 and 25 per cent, respectively, compared with 1994–1995. The shortfall between income and expenditure was consolidated at $1,059,252 in 1996–1997, compared with $7,727,739 in 1994–1995. This shortfall and an adjustment of the reserve contributed to the decline in the fund balance to $60,476,388 in 1996–1997 from $63,337,911 in 1994–1995.

3. The narrow, earmarked and voluntary nature of the Programme's funding base continues to constrain operational flexibility and financial planning. In order to broaden the donor base, especially for general-purpose resources, a new fund-raising effort was launched during the financial period and endorsed by the Commission on Narcotic Drugs in its resolution 10 (XXXIX). The initiative links the concept of ownership with the need to widen the donor base of the Fund of the Programme, by specifically targeting new donor countries and contributions of $300,000. Initial results have been encouraging and contributed to halting the decline in general-purpose contributions, which were maintained at $30,343,531 in 1996–1997, compared with $30,923,137 in 1994–1995 and $51,497,020 in 1992–1993.

4. In addition to its Fund, the Programme is financed under the regular programme budget of the United Nations with a total expenditure of $15,421,238 during the biennium 1996–1997 (note 3). Whereas the Fund supports activities geared towards assisting developing countries in international drug control, the regular budget share of the Programme is mostly concerned with treaty implementation and legal affairs. The Fund accounted for approximately 87 per cent of resources available to the Programme in 1996–1997, compared with approximately 13 per cent covered under the regular budget of the United Nations.

Statement I. Income and expenditure and changes in Fund balances

5. Total income amounted to $103,295,500 in 1996–1997, compared with $130,626,761 in 1994–1995, reflecting a decline of $27,331,261, or 21 per cent. Total expenditure amounted to $104,354,752 in 1996–1997, compared with $138,354,500 in 1994–1995. This reflects a decline of $33,999,748, or 25 per cent. The deficit between income and expenditure was $1,059,252, compared with $7,727,739 in 1994–1995. Expenditure under the programme budget declined from $102,718,320 in 1994–1995 to $70,099,950 in 1996–1997. This coincided with the completion of a number of capital intensive projects with new activities still at the early stage of implementation.

6. The statement also provides a breakdown between general-purpose and special-purpose funds for the biennium 1996–1997. General-purpose income amounted to $36,941,445, or 36 per cent of total income, and special-purpose income amounted to $66,354,055, or 64 per cent. General-purpose expenditure amounted to $43,528,776, or 42 per cent of total expenditure, and special-purpose expenditure amounted to $60,825,976, or 58 per cent. As a result, expenditure exceeded income for the general-purpose fund to the amount of $6,587,331, whereas for special-purpose funds a surplus of $5,528,079 was recorded.

7. In accordance with the United Nations System Accounting Standards, the statement shows, in a new format compared with the previous biennium, changes in fund balances that link the income and expenditure position with that of the fund balances. Other than the $1,059,252 net shortfall in income over expenditure explained above, the second main change affecting the total fund balance position was the net transfer of $1,975,700 to the operational reserve as authorized by the Commission on Narcotic Drugs. The details and rationale of this item are fully disclosed in note 7 to the financial statements. Another major change between general and special-purpose funds but not affecting the total fund balance in 1996–1997 is the treatment of programme support costs retained by the Programme. Previously, these costs were charged to programme expenditure and deducted from staff costs under the biennial support budget. They are now treated as inter-fund adjustments so as to disclose more clearly actual expenditure. Full details of this item are disclosed in note 9.

Statement II. Assets, liabilities and reserves and fund balances

8. Statement II shows the assets, liabilities, reserves and fund balances at 31 December 1997. As authorized by the Commission on Narcotic Drugs, reserves have been established at $12,000,000 and consolidated under the general-purpose fund as one operational reserve to protect the financial viability and integrity of the Fund of the Programme. The purpose and nature of this reserve is fully disclosed in note 7 to the financial statements. Compared with 1994–1995, the fund balance declined by $2,861,523, or 4.5 per cent reflecting the decline in net assets. Of greater significance is the $6,141,941 decline in the general-purpose balance available for future programme activities, from $19,887,703 at 1 January 1996 to $13,745,762 at 31 December 1997. The decline results from the shortfall between income and expenditure, a continuing trend which restricts the operational and financial flexibility of the programme.

Statement III. Cash flow

9. Net cash outflows from operating activities were $10,360,710 in 1996–1997, compared with $29,908,428 in 1994–1995. The substantial reduction in these outflows is a result of the 25 per cent decrease in programme expenditure compared with the previous biennium. Cash outflows from operating activities were offset by cash inflows from investing activities, amounting to $6,978,310 in 1996–1997 compared with $9,446,089 in 1994–1995. The decreased inflows were the result of slightly lower interest income owing to a gradual reduction in cash and term deposits as well as the repayment of the inter-fund balance with the United Nations general fund. The net result of these cash flows has been a reduction of $3,208,969 in the total cash and term deposits during the biennium.

Schedules

10. The financial statements are supported by six schedules. Schedule 1 shows the status of general-purpose contributions and schedule 2 the status of special-purpose contributions. Total unpaid pledges at 31 December 1997 under the general-purpose fund amounted to $6,189,861 due from 20 countries, representing 20 per cent of total general-purpose income for 1996–1997. A substantial portion of these unpaid pledges were, however, received within the first quarter of 1998. Three new schedules have been introduced following the adoption of the harmonized budget model as applied by the United Nations Development Programme, the United Nations Population Fund and the United Nations Children's Fund to improve transparency and comparability. Schedule 3 shows the status of the approved programme budget and indicates that programme expenditures against the final budget were $70,099,950, representing underexpenditure of $4,442,950, a 6 per cent variance. This compares with an underexpenditure of $14,124,580, or 12 per cent variance in the previous biennium. The lower variance indicates improved accuracy of estimates, based on better monitoring of budget and expenditures. Schedule 4 discloses programme expenditure and programme support costs by executing agency and funding source and schedule 5 gives the status of the approved biennial support budget. Schedule 6 shows the status of operating funds advanced to agencies at 31 December 1997, amounting to $12,608,271, which had declined from $14,781,518 at the end of 1995.

Notes to the financial statements

11. The financial statements include 18 notes. Note 2 describes the accounting policies applied in the preparation of the statements. The remaining 17 notes provide additional information and clarification of the Programme's financial activities for which the Executive Director has administrative responsibility.

Performance report for the biennial support budget

12. In response to a previous recommendation by the United Nations Board of Auditors, the report of the Executive Director includes for the first time a performance report for the biennial support budget. Performance is captured by quantifying the delivery of outputs. Outputs are specific products or services that contribute to the achievement of the objectives of the organization and are identified under the following 10 clusters: coordination, harmonization and liaison; advocacy; resources mobilization; parliamentary services; publications; technical reports and services; advisory services; group training; development of programme and project activities; and backstopping of programme and project activities. In the context of the initial budget for the biennium 1996–1997 (E/CN.7/1995/21), 2,606 outputs were approved. An interim performance report for the biennium 1996–1997 was presented in the context of the proposed final support budget for 1996–1997 (E/CN.7/1997/14), which increased the total number of outputs to be delivered to 3,099. This figure was based on actual out-turn for the first 18 months of the biennium and estimated performance for the remaining 6 months.

13. For the biennium 1996–1997, 3,128 outputs were delivered compared with the last estimate of 3,099. The total number of outputs delivered closely corresponds to the estimate provided in the interim performance report. With regard to expenditures, savings of $323,408 were achieved against the approved biennial support budget of $32,272,400. Whereas the interim performance report (E/CN.7/1997/14) provides details on output delivery, an update

is given in the table shown below. Additional outputs under coordination, harmonization and liaison indicate additional meetings held with organizations such as the Organization of African Unity and the Inter-American Drug Abuse Control Commission. The production of additional information material by the Programme's field offices accounts for the output increase under advocacy. In addition, more emphasis was placed on the development and backstopping of programme and project activities resulting from the recent introduction of an integrated programming approach. The issuance of a number of publications, which were completed in draft form during 1997, was delayed to 1998, whereas a number of technical reports, anticipated to be prepared towards the end of 1997, were not delivered. Owing to the delay in the recruitment of staff, a number of advisory services could not be delivered as planned.

14. The table on outputs for 1996–1997 also indicates the utilization of budget resources by output categories. It is noted that the largest share of resources, amounting to 39.6 per cent, are utilized for the development and backstopping of programme and project activities, followed by advisory services with 13.9 per cent and coordination, harmonization and liaison with 13.7 per cent.

Outputs for 1996–1997 under the biennial support budget

Categories of outputs	*Number of planned outputs initial budget (E/CN.7/1995/21)*	*Estimated number of outputs delivered final budget (E/CN.7/1997/14)*	*Actual number of outputs delivered*	*Percentage of the biennial support resources utilized*
Policy dialogue	20	20	20	1.3
Coordination, harmonization and liaison	96	100	115	13.7
Advocacy	106	165	176	4.9
Resources mobilization	212	281	279	6.4
Parliamentary services	67	82	81	6.1
Publications	14	16	8	3.3
Technical reports and services	53	151	114	6.6
Advisory services	657	667	636	13.9
Group training	13	49	47	4.2
Development of programme and project activities	427	426	434	15.1
Backstopping of programme and project activities	941	1 142	1 218	24.5
Total	**2 606**	**3 099**	**3 128**	**100.0**

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has audited the operations of the United Nations International Drug Control Programme. The Board has validated the financial statements for the biennium ended 31 December 1997 and conducted two management audits, covering the management of technical cooperation projects, and establishing the Programme as a centre of excellence.

The Board's main findings are:

(a) The Programme has made significant progress in encouraging executing agencies to provide audited statements of programme expenditure incurred on its behalf; notwithstanding the improvements achieved, disbursements of $17.9 million incurred through the United Nations Development Programme (UNDP) on nationally executed projects were not supported by audit reports. Accordingly, there was insufficient evidence to allow the Board to form an audit opinion on this expenditure;

(b) There was a need for improved policy guidance to clarify the basis of the Programme's activities and to ensure consistency of treatment, programme-wide;

(c) While the Programme had made significant improvements in setting measurable objectives, benchmarks and success criteria for technical cooperation projects, there remained scope for further improvement;

(d) Despite its objective of preferring national execution to implement projects, over the six years from 1992 to 1997, national execution has accounted for the smallest proportion of the Programme's project allocations;

(e) In a sample of five major projects examined by the Board, and totalling $23.5 million in value, project evaluations had expressed reservations about the direct impact of all five projects in terms of their contribution to drug control;

(f) Despite the Programme's declared aim of becoming a centre of excellence, it had no plan of action on how to achieve that aim.

Key recommendations are that the Administration should:

(a) Carry out liaison with UNDP to ensure that audit reports are received for all nationally executed disbursements incurred through UNDP;

(b) Strengthen project documents by systematically incorporating baselines, targets and monitoring and evaluation frameworks;

(c) Carry out a thorough appraisal of the scale of the drug problem and the cost-benefit of project proposals before projects are approved;

(d) Ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

A list of the Board's main recommendations is included at paragraph 9 of the present report.

A. Introduction

1. The Board of Auditors audited the financial statements of the Fund of the United Nations International Drug Control Programme for the period from 1 January 1996 to 31 December 1997. The audit was conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1996 to 31 December 1997 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the Programme's financial statements presented fairly the financial position at 31 December 1997. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under regulation 12.5 of the Financial Regulations and Rules of the United Nations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of the Programme. The Board also examined the management of technical cooperation projects and establishing the Programme as a centre of excellence. The Board's staff also undertook a visit to the Programme's field offices in Thailand and China.

4. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the Administration.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to the Programme. The Administration has confirmed the facts on which the Board's observations and conclusions are based and provided explanations and answers to the Board's queries.

6. A summary of the Board's recommendations is contained in paragraph 9 below. Detailed findings are in paragraphs 10 to 78.

1. Previous recommendations not fully implemented

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below one recommendation made in its report relating to the biennium 1992–1993, which has not been fully implemented:

- The Programme should review and simplify its financial accounting arrangements. Following the transfer of the Programme's accounting function from United Nations Headquarters to the United Nations Office at Vienna from 1 January 1996, the Programme has maintained a spreadsheet system to integrate United Nations Office at Vienna postings and expenditure details reported by executing agencies. This process involves significant re-input of data, thus increasing the risk of error, and does not facilitate production of the financial statements, which requires further manual

input. While noting that significant preparatory work has been undertaken on the development of an integrated financial accounting system, the Board encourages the Programme, jointly with the United Nations Office at Vienna, to complete this process as a matter of priority.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 1995. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations

9. The Board's main recommendations are that the Programme:

(a) Carry out liaison with the United Nations Development Programme to ensure that audit reports are received for all nationally executed disbursements incurred through UNDP (para. 15);

(b) Complete and promulgate guidelines on drug control policy as a matter of priority (para. 27);

(c) Strengthen project documents by systematically incorporating baselines, targets and monitoring and evaluation frameworks (para. 40);

(d) Carry out a thorough appraisal of the scale of the drug problem to be addressed and the cost-benefit of project proposals before projects are approved (ibid.);

(e) Initiate *ex post facto* evaluations of projects, where appropriate, to obtain a more reliable assessment of the sustained impact of projects some years after activities have been completed (para. 50);

(f) Complete the curricula and training materials for the intermediate and advanced courses in contemporary drug-abuse control policy as a matter of priority, develop a training plan, with clearly defined responsibilities and a timetable, and take action to secure the necessary financial resources (para. 73);

(g) Ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies (para. 76).

B. Financial issues

1. United Nations System Accounting Standards

10. The Board assessed the extent to which the Programme's financial statements for the biennium ended 31 December 1997 conform to the United Nations System Accounting Standards. The review indicates that the presentation of the financial statements is generally consistent with the standards.

2. Programme expenditure incurred by executing agencies

11. Because the Board does not have access to the expenditure records of all executing agencies, it relies on audit reports from other auditors to confirm that funds advanced to executing agencies and national Governments have been properly expended on the Programme's projects.

12. The Board noted in its report on the financial statements for 1994–1995 that at the date of finalization of the statements, audit reports had not been received from executing

agencies, primarily non-governmental organizations, in respect of programme expenditure totalling $6.1 million. The Board recommended that the Administration formalize and clarify its arrangements for receiving audited expenditure statements.

13. The Programme has incorporated a formal requirement into its agreements with executing agencies that audited statements are submitted at the end of the period.

14. For the biennium ended 31 December 1997, the Programme incurred $70.1 million in programme expenditure, which included $29.6 million incurred through agencies and $18.6 million through national execution. The Programme succeeded in obtaining audit reports for all but $142,000 of the $29.6 million in programme expenditure incurred by executing agencies. This represents a significant improvement compared with previous bienniums. Furthermore, the Board is pleased to note that, since the Board's report on the biennium 1994–1995, the Programme has received audit reports covering some 83 per cent of the $6.1 million expenditure incurred in 1994–1995, which had not been received at the time of the Board's last report.

15. Notwithstanding these significant improvements, the Board noted that disbursements of $17.9 million out of the $18.6 million incurred through UNDP on nationally executed projects were not supported by audit reports. There was, therefore, insufficient evidence to allow the Board to form an audit opinion in respect of this expenditure. **Accordingly, the Board recommends that the Programme carry out liaison with UNDP to ensure that audit reports are received for all nationally executed disbursements incurred through UNDP as the executing agency.**

3. Financial position

16. As shown in statement 1, the Programme's total expenditure of $104.4 million exceeded total income of $103.3 million by $1.1 million. This shortfall of income over expenditure, together with other adjustments, provisions and transfers, resulted in a reduction of $2.8 million in the Programme's fund balance, from $63.3 million to $60.5 million.

17. The total income of UNDCP declined from $130.6 million in 1994–1995 to $103.3 million in 1996–1997, a fall of 21 per cent. The Board notes that the Programme is making efforts to broaden its donor base by launching a new fund-raising campaign, as noted in the report of the Executive Director in chapter I above.

18. The Board's audit revealed that one of the Programme's country offices maintained two project accounts in local currency whose income totalling the equivalent of $304,100 and expenditure totalling the equivalent of $290,558 had not been reflected in the Programme's general ledger. The Administration took action to correct the general ledger and ensure that proper budgetary control is maintained. Nonetheless, the Board is concerned that funds and transactions under the Programme's stewardship had gone unrecorded, and that bank accounts had been opened without the knowledge of the Administration.

4. Write-off of losses of cash, receivables and property, and ex gratia payments

19. In 1996–1997, the Programme reported no write-offs of losses of cash, or other assets. No ex gratia payments were reported during the period.

C. Management issues

1. Management of technical cooperation projects

Introduction

20. The Programme is the United Nations focal point for concerted international action to control drug abuse. It aims to suppress the manufacture of, and trade in, illicit drugs, to reduce the negative impact of drug abuse on the individual and society and to ensure the availability of drugs for medical and scientific purposes. One of the principal responsibilities of the Programme is to coordinate and carry out technical cooperation projects to reduce the supply of, demand for and use of illicit drugs, and to strengthen national capacities for drug control and law enforcement. In 1996–1997, the Programme incurred $70.1 million in programme budget expenditure, essentially covering technical cooperation projects.

21. Against this background, the Board examined:

(a) Whether the Programme had clearly defined policies and strategies for the formulation of its technical cooperation programmes and projects;

(b) The design of Programme projects;

(c) Whether projects had met their objectives and were timely, within budget and in accordance with standards for quality.

22. The Programme had 220 projects in operation during 1996–1997. Of that number, 55 had budgets exceeding $1 million and the Board selected 5 of these for detailed examination. These projects had combined lifetime expenditures of $23.5 million, equivalent to some 20 per cent of the Programme's biennial expenditure on technical cooperation projects. The Board supplemented its core sample with selections of other projects to review key aspects of the Programme, where appropriate.

Drug control policies and strategies

23. The Committee on Policy Planning was the Programme's official policy-making body, meeting twice a year until it was disbanded in January 1996. The Committee's deliberations, although policy-oriented, were not translated into clear policy statements. The Programme has not replaced the Committee.

24. Since January 1993, the Programme has issued programme advisory notes, which provide some policy guidance on the administration and execution of technical cooperation activities. The Programme also issues technical information papers to share experiences and provide advice on best practices. The programme advisory notes are almost exclusively concerned with procedural matters relating, for example, to the preparation of national master plans, the planning and project cycles and the UNDCP approach to research and evaluation, while the technical information papers are technical in nature and are not intended to constitute definitive statements on Programme policies. Neither set of documents, therefore, constitutes a clear and comprehensive source of guidance on the Programme's drug control policies.

25. The Board concluded that there was a need for improved policy guidance to clarify the basis for Programme activities and to ensure consistency of treatment, Programme-wide. The Programme pointed out that since the Committee on Policy Planning had not been replaced, the Project Review Committee had, therefore, by default, taken on a policy-formulation role that was beyond its limit. It also informed the Board that, since its formation in 1991, the Programme had carried a heavy burden in terms of backstopping technical

cooperation projects from Headquarters and that this had hindered staff in reflecting on, and formalizing, Programme policies. The Programme recognized that de facto policies had emerged over this period and that it now needed to clarify, update and formalize them.

26. The Programme had started to develop a series of policy documents, that would address Programme priorities in, and approaches to, demand reduction and alternative development, Programme policy concerning estimates of illicit crop cultivation and drug production, rapid assessment of drug abuse situations and primary prevention. The Programme intended to support these, where appropriate, with handbooks providing methodological guidance.

27. The Board welcomes the recent developments in policy formulation and recommends that the Programme complete and promulgate guidelines on drug control policy as a matter of priority. The Administration concurred with this recommendation.

Progress in developing a programme approach

28. In July 1994, the Programme issued guidance for the development of country and subregional programme frameworks. The Programme intended the frameworks to provide the main reference point for the application of a programme approach, describe its objectives in the country or subregion concerned and serve as the plan upon which all of its activities would be based. The Programme required a framework to be drawn up for each country in which it had a country office and that others be prepared for countries or regions that were a high priority in the implementation of its mandate.

29. The Programme produced the first frameworks for 1994–1995, covering six countries and two subregions. By 1996–1997, the frameworks provided extensive geographical coverage: the Programme had prepared 20 programme frameworks, for 12 countries and 8 subregions, covering a total of 99 countries, including high priority areas. The Board noted that frameworks were still in draft form for two countries that were a major source in the illicit production of opium. Overall, however, the Board was pleased to note that the Programme had made good progress in developing a programme approach.

Improving the quality and usefulness of programme frameworks

30. The Board identified five key criteria that it considered were indicators of the quality and utility of programme frameworks: timeliness; adherence to United Nations drug control conventions; capacity-building in Governments; estimates of financial resources required; and the application of lessons learned. The Board assessed 10 of the 20 frameworks prepared for 1996–1997 against those criteria.

31. The Board considered that the frameworks represented a significant step forward for the Programme, particularly in the development of a more balanced approach to drug control in individual countries and subregions and, in turn, for the Programme as a whole. The Board considered, however, that there was scope for improving the frameworks. The following summarizes the main findings.

Scope for improving programme frameworks

Need to ensure the timely preparation of programme frameworks

- Only 3 of the 10 frameworks were ready before the start of the biennium 1996–1997. Two of the remaining seven were prepared 9 months, and one 11 months, after the start of the biennium.

Need to link Programme activities with Government's adherence to United Nations drug conventions

- Six of the frameworks provided insufficient information about Governments' adherence to United Nations drug conventions and the strength of national legislation, as the primary reference point for the design of the programmes.

Need to demonstrate increasing government capacity and responsibility for drug control

- None of the frameworks assessed Governments' capacities to manage drug control activities or the scope for countries to assume greater responsibility in the fight against drug abuse.

Need for quantitative estimates of resources required for the proposed programme

- Only one of the frameworks provided estimates of the financial resources required for the programme.

Need to base frameworks on lessons learned from previous Programme activities

- Only one of the frameworks referred to previous Programme activities in the country or region, and the lessons learned, in helping to formulate the programme. The Board was pleased to note, however, that the Programme had issued revised guidance in April 1996 to ensure that programme frameworks addressed this matter in future.

32. **The Board recommends that the Programme ensure that programme frameworks are prepared on a timely basis and that clearer assessments of national legislation and government capacities, and financial estimates and lessons learned, are incorporated in the programmes.** The Programme concurred with this recommendation, noting that with recent decentralization of responsibilities to the field level and streamlining of administrative procedures, improvements in this area would follow.

Design of projects

Project formulation and appraisal

33. The Project Review Committee acts as an advisory body to the Executive Director, reviewing project ideas and proposals for new projects, in particular, to ensure that they conform with the policies and priorities of the Programme and with the established format

and substantive requirements for projects; and evaluate their quality and feasibility and the clarity and relevance of their drug control objectives.

34. Following a recommendation by the Board of Auditors in its report on the Programme's financial statements for 1992–1993, the Programme had introduced a standard project appraisal memorandum, which requires consultation between the various operational, technical and financial units and their joint approval, before a project proposal is submitted to the Project Review Committee.

35. For 1996–1997, the Board re-examined the project formulation and appraisal process, including the work of the Committee, and concluded that there was scope for further improvement. Between January 1996 and July 1997, the Project Review Committee appraised 77 new project proposals. The Board examined 11 of these project proposals.

36. For 10 of the 11 proposals, the Project Review Committee had had to request significant amendments and, in one of these cases, re-submission. Although the Board was pleased to see that the various units and the Committee had made positive contributions towards improving the design of projects, it was concerned at the large number of projects that required revision. The Programme acknowledged that project formulation required further improvement.

Setting measurable objectives, benchmarks and success criteria

37. A major aspect of the quality of project documents concerns the setting of measurable objectives, benchmarks and success criteria. In December 1992, the Programme issued guidelines that required that project objectives be stated in specific, precise terms. More recently, the Programme re-emphasized the need to incorporate achievement indicators in the design of projects. Moreover, the Programme's strategy for 1997–2001 emphasizes that drug-control initiatives must be targeted and result-oriented so that the Programme can best support the international community, taking account of its limited resources.

38. The Board examined 17 project documents in order to assess the extent to which the Programme had made progress on this matter during 1996–1997, and noted that the Programme had made significant improvements. All but 1 of the 12 most recent project documents incorporated some form of achievement indicators in their design, whereas 2 of the 5 earlier projects did not have any such indicators. The Board considered, however, that there was scope for further improvement. The following summarizes five key weaknesses identified.

Weaknesses in the objectives and performance measures of 17 projects

Absence of baseline data and targets

- Only 1 of the 17 project documents contained both baseline data and targets to quantify the problem at hand and the project's expected drug control impact and added value, although another did set a measurable target. In two projects, assessments or annual surveys had been undertaken, suggesting that baseline data were available but had not been included in the project documents.

Lack of reliable data on the scale of the problems to be addressed

- In four projects there we e little or no reliable data on the extent of drug problems within the country or areas concerned. In two of these cases, a baseline survey would be undertaken as part of the project. The Programme was therefore unsure about the scale of the problems before the projects started.

Lack of clarity concerning target areas for Programme support

- Three of the twelve most recent project documents provided insufficient information about the projects' target areas or institutions, resulting in a lack of clarity on the scope of the projects.

Absence of quality measures

- In three project documents that aimed to improve the quality of drug control, there was no consideration of how quality improvements would be measured.

Inconsistency between the drug control objective and project scope

- In 2 of the 12 most recent project documents, the drug control objectives were not accurately reflected in the scope of the projects.

39. The Board was concerned at the general lack of quantification in the project documents, as noted above, which prevented the Programme from assessing whether proposed projects justified the costs, before giving them approval. In aggregate terms, the 17 projects had original lifetime budgets totalling $48.4 million, yet the only quantified targets were a reduction in the production of opium of between 2,800 and 3,200 kilograms in one country and a reduction in coca cultivation of 5,000 hectares in another. There were no other data to show the impact, in terms of supply and demand reductions and increased drug seizures and interdictions, that the Programme expected to achieve by spending such a large sum of money. The lack of quantification also prevented the Programme from providing a satisfactory basis for monitoring and evaluating the actual progress and achievements of the projects.

40. The Board considered that the project documents could have been improved by including a clearly defined monitoring and evaluation framework incorporating performance measures, baselines and targets and an explanation of how relevant quantitative and qualitative performance data would be collected in the course of the projects. The Programme informed the Board that it planned to develop a set of standard performance

indicators for incorporation in individual projects and for assessing the Programme as a whole. **While welcoming this development, the Board recommends that the Programme:**

(a) Strengthen project documents by systematically incorporated baselines, targets and monitoring and evaluation frameworks;

(b) Carry out a thorough appraisal of the scale of the drug problem to be addressed and the cost-benefit of project proposals before projects are approved.

The Programme concurred with the recommendation.

Predominance of agency and execution of projects

41. National execution, which involves Governments assuming responsibility for the formulation and management of projects and programmes, and accountability for the effective use of United Nations funds, was encouraged by the General Assembly in its resolution 47/199 of 22 December 1992, in which it stated that it should be the norm for United Nations-assisted projects.

42. The Programme had reflected the General Assembly policy in a programme advisory note issued in October 1996, in which it stated that, to the extent that a recipient Government had the necessary capabilities to execute a project, national execution was the preferred approach. The note pointed out that, at times, national entities did not have the manpower, technical or administrative skills or mandate to execute projects and that, in such cases, United Nations agencies or other organizations might act as the executing agency. The guidance stated that the Programme could execute projects, if no other organization could perform the necessary tasks with comparable competence or cost-effectiveness, but that this should be limited to the utmost and restricted to projects in highly specialized fields.

43. The Board noted that national execution accounted for the smallest proportion of the Programme's project allocations. In 1996–1997, $21.9 million (31 per cent) of the programme budget expenditure was incurred through direct (UNDP) execution; $29.6 million (42 per cent) was executed by agencies; and only $18.6 million (27 per cent) through national execution. In terms of numbers of projects, of the 220 projects in operation in 1996–1997, 139 (63 per cent) were executed by the Programme, 48 (22 per cent) by agencies and only 33 (15 per cent) by Governments. The Board identified two factors that have mitigated against the adoption of national execution by the Programme:

(a) **Significant use of global and regional projects**. In accordance with its mandate and the need for a coordinated response to the threat of drugs, the Programme has provided a significant proportion of its technical assistance through global and regional projects. For example, of the 220 projects in operation in 1996–1997, 92 (42 per cent) were global or regional projects. National execution has normally been inappropriate for such projects;

(b) **The Programme's shift towards multisectoral projects**. As part of its move towards a balanced approach to drug-abuse control, the Programme has, over the past three bienniums, shifted its activities towards multisectoral projects, where there has been minimal national execution, perhaps reflecting the scope and complexity of such projects. In 1996–1997, for example, the Programme had 21 multisectoral, country-based projects in operation, only one of which was nationally executed.

44. The Programme informed the Board that its selection of suitable implementing agencies involved consideration of Governments' capacities to manage drug-control projects, the complexity of those projects and the sensitivity of the issues to be addressed. To assess this process, the Board examined 12 project proposals prepared in 1996–1997.

45. Five of the projects were at the global or regional level, where national execution was inappropriate. For all but one of these, the Board was satisfied that the executing agency had been selected after a sound and careful analysis. Of the seven country projects, none involved national execution, although the Board noted that, for three of these, the political circumstances in the country precluded the adoption of national execution. For each of the other four country projects, however, there was no consideration of national execution as the preferred option; and there was no assessment of the Government's capacities or willingness to manage the project concerned.

46. The Board considers that, in appropriate projects, the Programme could do more to encourage national execution, for example, by assessing government capacity and willingness to manage the project concerned and by focusing projects on government capacities where they are assessed as weak.

Meeting of project objectives

Delivering planned outputs

47. The Board examined five projects to assess whether outputs had been delivered to time and within budget. For four projects, lifetime expenditures were in line with approved budgets, while the overspend on the fifth project was less than 1 per cent. There had been, however, particular difficulties in the delivery of outputs in four of the projects. The projects shared several delivery problems, as shown below.

Common problems in delivering planned outputs

Delays in starting and completing projects

- All five projects had a delayed start. Moreover, the Programme extended the duration of four of them to allow more time for completion. Notably, one project took almost twice as long as originally planned.

Inadequate control over the procurement of equipment

- In three projects, there were problems in the procurement of equipment, including lack of procurement scheduling and monitoring, the provision of unnecessary or inappropriate equipment, failure to deliver some equipment.

Failure to deliver the planned volume of outputs

- Two of the projects fell significantly short of delivering the expected outputs. For one, this was due in the first instance to inadequacies in the executing agency, which the Board considers was appointed without due regard to its capacity to deliver the project. For the second project, shortfalls in delivery were attributed by the Programme primarily to unrealistic financial planning, although diversion of resources towards an agricultural credit scheme exacerbated the shortage of resources.

48. The Board recommends that the Programme adopt a more prudent approach in the planning of its projects, ensuring that projects have realistic start dates and

duration, and sound procurement planning, financial resources and execution arrangements. The Programme fully concurred with this recommendation.

Limitations in demonstrating the impact of projects

49. The Board was pleased to see that all five projects had been subjected to at least one external evaluation during their lifetimes. Evaluators reported on positive results under all of the projects. The Board noted, however, that the evaluators expressed reservations about the direct impact of all five projects in drug control terms. The absence of reliable baseline data and of targets from the project documents precluded evaluators from providing quantitative and qualitative assessments of project results, as shown below.

Evaluators' comments on the quantitative and qualitative impact of projects

Project 1: $1 million spent

- In the absence of precise, quantifiable objectives and baseline indicators before the project started, it was difficult to gauge the impact achieved from equipment provided to the Government's enforcement agencies in any qualitative or quantitative way.

Project 2: $2.5 million spent

- It was not possible to assess the impacts of the project owing to incomplete information in the records that existed.

Project 3: $6.6 million spent

- Data on opium production were not consistent and it was impossible to quantify changes in illicit cultivation levels with any reliability.

Project 4: $3.2 million spent

- It was only the enforcement measures of the Government that had prevented further cultivation of illicit crops. There was no evidence that the project had assisted in either providing farmers with alternatives or changing their attitudes towards illicit cultivation.

Project 5: $10.2 million spent

- Coca cultivation had fallen from 7,249 hectares at the start of the project to 792 hectares by the end of 1995, a reduction of 6,457 hectares, exceeding the original target. However, other events, external to the project, were attributed as key factors in bringing this about.

50. The Board was concerned that the Programme was unable to measure clearly the impact from the $23.5 million spent under these five projects. The Board recognizes that the Programme's projects involve a variety of activities from which it might not be reasonable to expect quantifiable improvements over the lifetime of a project. The Board considers, however, that the Programme needs to give more attention to this matter and reiterates its recommendation on the need for baselines and targets to be included in all project documents so that the Programme can consistently demonstrate its added value in both quantitative and qualitative terms. **The Board also recommends that the Programme**

initiate *ex post facto* evaluations of projects, where appropriate, to obtain a more reliable assessment of the sustained impact of projects some years after activities have been completed. The Programme informed the Board that it supported the case for more attention to be given to the evaluation of the impact of projects. It intended that lessons learned should be publicized and disseminated to Member States and others and used as a basis to design the next generation of technical assistance.

2. Establishing the Programme as a centre of excellence

Introduction

51. In 1991, the then-Executive Director announced his vision of the Programme becoming a global centre of excellence in all aspects of international drug control. Notably, the Programme would be at the centre of a network of experts; it would have its own internal expertise and would supplement this by tapping the considerable expertise that existed outside the Programme within Member States themselves.

52. As a centre of excellence, the Programme would carry out applied scientific research, act as the repository of expertise and knowledge on drug-related issues and systematically disseminate its findings to obtain maximum impact amongst Member States. It would develop new techniques and establish standards and best practices on issues such as chemical analysis and quality control of drugs, anti-money laundering measures, drug control legislation, alternative development and demand reduction. Such activities would both underpin the Programme's support to intergovernmental bodies and strengthen its technical cooperation activities.

53. Against this background, the Board examined:

(a) Programme's progress in developing its sources of drug control expertise;

(b) How the Programme had used the available expertise to improve the quality and impact of the Programme.

Developing sources of drug control expertise

Funding constraints

54. The Programme's progress towards becoming a centre of excellence has depended, to a significant extent, on the availability of financial resources. Funding of the Programme can be grouped into three main categories: the United Nations regular budget, with which the Programme services its intergovernmental bodies; special-purpose voluntary contributions, used for technical cooperation activities specified by donors; and general-purpose voluntary contributions that are not earmarked by donors for any specific use. It is on the third type of funding that the Programme relies for its policy development, research and analytical work. Notably, general-purpose income declined from $55.5 million in 1992–1993 to some $36.9 million in 1996–1997, a reduction of some $18.9 million (36 per cent), significantly affecting the Programme's progress towards becoming a centre of excellence.

Strengthening the Programme's internal expertise

55. UNDCP has three main sources of expertise: its own internal experts appointed on permanent or fixed-term contracts; national and international institutions involved in drug-related issues; and independent consultants. The Programme's ability to build up and maintain in-house expertise, the creation of a network of cooperating institutions and the

development and utilization of a reliable database of external consultants should be key elements in enhancing the quality of its work in pursuit of its vision of becoming a centre of excellence.

56. The Board reviewed the Programme's encumbered and vacant staff posts at December 1996 and December 1997 to identify the scope of in-house expertise at both its headquarters and field offices during 1996–1997. The Board noted that the Programme had strengthened its internal expertise during this period: the total number of approved expert posts increased by 11, from 23 in 1996 to 34 in 1997, while the number of experts actually in post increased from 20 to 27. The Programme's laboratory, demand reduction and supply reduction and law enforcement sections were each strengthened by the addition of two experts. Moreover, the Board noted that law enforcement expertise would be strengthened further once three money laundering and financial experts took up their project posts in 1998. It noted, however, that:

(a) Most of the strengthening had taken place at headquarters. The number of experts in post in the field increased by only 2, from 6 to 8, whereas an additional 5 experts at headquarters brought their total up from 14 to 19;

(b) The number of field offices with resident experts remained limited. Although the number of field offices with at least one expert in post increased from four in December 1996 to six in December 1997, this was a modest improvement in the light of the 17 field offices that the Programme had in operation at that date.

57. The Board was pleased to note that the Programme intended to strengthen its field presence during the biennium 1998–1999 and planned to decentralize programme management from headquarters to its country and regional offices by the opening of new offices in three countries, and the transfer of staff, including some experts, to country offices.

Joint working with cooperating institutions

58. A key element in the centre of excellence vision concerned the Programme establishing cooperative working arrangements with national and international institutions. It was not until five years after the vision was formulated, however, that the Programme started to establish formal working mechanisms with such institutions.

59. During 1996–1997, the Programme signed memoranda of cooperation with five organizations; it also has a further two under discussion. The memoranda are not legally binding documents and do not commit either party to the provision of financial or staffing resources for any proposed joint working arrangement. Four of the memoranda involve universities and research institutes and are intended to serve as non-binding guidelines to facilitate, direct and enhance joint research activities. One of these memoranda also aims to provide opportunities for short-term exchange of professional staff between the Programme and the institution concerned. The fifth memorandum is concerned with establishing closer cooperation on policy issues and the development and implementation of technical cooperation programmes on drug law enforcement by national customs administrations.

60. The Board recommends that the Programme review its needs for additional support from external organizations with expertise in drug-related issues, identify the institutions that are best placed to meet its requirements and develop relevant agreements with them. The Programme informed the Board that it accepted the need to build up in-house expert capacity on the technical side, and considered that emphasis would need to be placed on developing specific plans of joint work with institutions best placed

to meet non-core functions requirements. It would, however, be limited by resource constraints.

Selection of independent consultants

61. In 1996–1997, the Programme appointed 147 consultants at headquarters at a cost of $1.9 million to help it deliver its programme of work, in addition to the national consultants recruited in the field. In its report on the Programme's 1994–1995 financial statements, the Board of Auditors considered that the Programme's overall system governing the requesting, selection and engagement of consultants needed to be improved, and noted that the Programme had initiated remedial action, which included the establishment of a central roster of consultants.

62. The Programme launched its central roster in March 1995. In April 1997, it conducted a survey, which showed that headquarters sections and 10 field offices had their own rosters. Utilization of the central roster was mixed; seven headquarters sections used the roster, but only five country offices used it, and four of these only occasionally. The Board selected 31 (21 per cent) of the 147 consultancy contracts let by headquarters in 1996–1997 and noted that 21 (68 per cent) of the consultants were not recorded on the roster.

63. The roster should enable Programme staff to identify quickly and independently high quality candidates with relevant expertise. From a sample of consultants on the roster, the Board was unable to obtain any evidence that they had been screened before being brought onto the system, to assure their quality. In addition, there was no clear structure or rationale for the 206 areas of expertise under which consultants were classified, nor had the Programme undertaken any review to identify the types of consultancy specialisms in demand and whether the roster contained sufficient numbers of consultants in key disciplines to meet the Programme's requirements.

64. The following table shows the number of consultants recorded under 16 of the 206 areas of expertise.

Number of consultants recorded against 16 areas of expertise

Area of expertise	*Number*
Extradition	—
Searches at sea	—
Precursors control	—
Synthetic narcotic drugs	1
Boarding vessels	1
Public awareness	1
Licit drug legislation	1
Cargo identification	1
Banking	3
Money laundering	4
Interviewing and interrogation techniques	4
General research	948
General implementation	948
Planning	952
General evaluation	957
Training	957

65. The Board concluded that there was a need to make the roster match the Programme's needs more closely and to rationalize the 206 areas of expertise under which consultants are classified.

66. The Board therefore recommends that the Programme:

(a) Classify individual consultants according to a smaller number of key disciplines that would be helpful for the staff expected to use the roster;

(b) Promote and support the use of the roster by ensuring that it is regularly maintained and updated;

(c) Undertake periodic analyses of those areas of specialization most in demand to help identify shortfalls and initiate action to address them in advance of possible project assignments.

The Programme generally concurred with these recommendations.

Utilizing expertise to improve the quality and impact of the Programme

67. It is important that the Programme formally evaluate consultants' performance once assignments are complete. This should help the Programme to assess the quality of service provided and learn lessons for the future. In addition, evaluations should be documented to build up a record of performance as a basis for placing future work and securing appropriate quality in the delivery of the Programme.

68. The Programme uses the United Nations special service agreement form to record the quality of a consultant's work. This form categorizes the work as "excellent", "good", "adequate" or "not adequate" and asks the assessor to certify whether payment should be made in full. The Board examined the cases of 27 (21 per cent) of the 147 consultants used by Programme headquarters in 1996–1997. Of these 27 consultants, none was placed in the "not adequate" category; three were marked "adequate"; and there were 12 consultants in each of the "good" and "excellent" categories. Notably, the special service agreement form only asks for an explanation or supporting evidence if the consultant's performance is considered to be "not adequate". There was therefore no clear evidence on the consultants' files to support the conclusions reached.

69. The Board considers that the Programme needs to improve the transparency of its evaluations of consultant performance and recommends that the Programme:

(a) Introduce a standard evaluation form to document performance assessments for all consultants, covering the extent to which they met deadlines, budgets and objectives;

(b) Ensure that evaluations are carried out consistently and in a timely manner at the end of consultants' assignments.

The Programme informed the Board that it would consider how to improve the transparency of its evaluation of consultants' performance.

70. The Board noted that there was a facility in the consultants roster to enter evaluation details, but that no data had been entered onto the system. **The Board therefore recommends that the Programme record the results of evaluations on the central roster to ensure that they are accessible to Programme staff.** The Programme undertook to follow up how this might be achieved, possibly through the introduction of decentralized rosters on the Intranet.

Development of a staff training programme

71. The Board considers that an essential building block for a centre of excellence is the provision of a staff training programme. In June 1996, the Programme established a training policy specific to the field of international drug control and the Programme's role therein. The Programme considered that all staff representing the Programme at headquarters or in the field should have an adequate grounding in contemporary drug-abuse control policy and all key developments in demand and supply reduction. The Programme expected to provide its Professional staff with training at three levels – basic, intermediate and advanced.

72. The Board noted, however, that in the 18 months between establishing the training policy in June 1996 and the Board's review in January 1998, the Programme had made limited progress in developing the training programme. The Programme had prepared a syllabus for the basic level but not for the intermediate or advanced level. Moreover, the Programme had yet to conduct the first basic training course. Nor had the Programme identified who was responsible for managing and delivering the training courses, set out a timetable for their implementation or estimated the costs of the programme.

73. The Board recommends that the Programme complete the curricula and training materials for the intermediate and advanced courses in contemporary drug-abuse control policy as a matter of priority, develop a training plan, with clearly defined responsibilities and a timetable, and take action to secure the necessary financial resources. The Programme informed the Board that it planned to evaluate the basic course in 1999 and, based on lessons learned, to develop the intermediate and advanced courses.

3. Year 2000 issue

74. The Board undertook a study to assess the preparedness of the Programme for managing the year 2000 issue, which threatens all information systems.

75. The Programme has prepared an inventory of its information systems and has assessed them for year 2000 compliance. It confirmed that it had reintegrated converted and replaced systems into the operational environment. The Programme had yet to address the issue of back-up or archived data.

76. The Board recommends that the Programme should ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

4. Cases of fraud and presumptive fraud

77. The Programme reported two cases of fraud or presumptive fraud relating to the biennium 1996–1997. The Board noted during a visit to the Programme's Regional Centre for Asia that, during 1995 and 1996, an official at the Northern Narcotics Control Centre had embezzled the local currency equivalent to $11,000 in project monies by cashing individuals' cheques intended to refund unspent travel and subsistence advances. The Regional Centre identified the misappropriation in April 1996 and subsequently obtained full restitution from the official concerned. The United Nations Accounting Manual requires that suspected cases of fraud be immediately referred to Internal Audit for investigation and reported to the United Nations Controller. The Programme did not, however, follow those procedures in this case. **The Board therefore recommends that the Programme ensure that, in future, Internal Audit and the United Nations Controller are promptly notified of cases of fraud and presumptive fraud.** The Programme undertook to comply with the procedures in the future.

78. The Board has reviewed the other case of fraud reported by the Programme relating to the embezzlement of funds by a staff member in one country office. The total amount

embezzled during the period from March to July 1997 was equivalent to some $95,000. The Board notes that the case was reviewed by the Programme's Office of Audit and Performance Review, which led to the dismissal of the staff member and the recovery of the equivalent of some $45,000. The staff member has also agreed to repay the outstanding amount with interest. The Programme is presently pursuing compensation from the banks involved in the case.

D. Acknowledgment

79. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its auditors by the Executive Director and the staff of the Programme.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Sir John **Bourn**
Comptroller and Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Annex

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1995[a]

Recommendation 10 (a)

1. The Programme should take action to ensure timely receipt of audit certificates from executing agencies.

Measures taken by the Administration

2. The Programme undertook a major exercise in 1996–1997 to follow up with executing agencies who had not submitted audit certificates. A final deadline for submission of audit certificates was set beyond which the option of discontinuing further financing could be taken by the Programme.

Comments of the Board

3. The Board is pleased to note that the Programme has improved control procedures in this area. Some 83 per cent of the outstanding audit certificates for 1994–1995 have been received and the position has improved substantially on non-government projects executed in 1996–1997. However, the position regarding United Nations Development Programme (UNDP) national projects remains a problem and the Board is unable to form an opinion on this expenditure.

Recommendation 10 (b)

4. The Programme should consider presenting a performance report that indicates actual out-turn for the biennium in terms of activities and includes a quantified summary of achievements against mandates and objectives across all activities.

Measures taken by the Administration

5. A performance report on actual programme delivery for the last six months of the biennium has been prepared as part of the report of the Executive Director in the financial statements. This consists of an additional quantified summary of overall programme delivery and explanations of changes compared with the estimates in the biennial performance report for 1996–1997.

Comments of the Board

6. The Board is pleased to note this development.

[a] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5I* (A/51/5/Add.9), chap. II, para. 10.

Chapter III

Audit Opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 to 6 and the supporting notes of the United Nations International Drug Control Programme for the financial period ended 31 December 1997. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

Except for the effect of any adjustments that may be necessary upon receipt of outstanding audited expenditure statements relating to nationally executed projects, in our opinion, these financial statements present fairly, in all respects, the financial position at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with the Programme's stated accounting policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the Programme that we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long form report on our audit of the Programme's financial statements.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Sir John **Bourn**
Comptroller and Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Chapter IV

Certification of the financial statements

19 May 1998

I certify that the appended financial statements of the Fund of the United Nations International Drug Control Programme, numbered I to III, the notes and the supporting schedules are correct.

(Signed) Pino **Arlacchi**
Executive Director
United Nations International Drug
Control Programme

Chapter V

Financial statements for the biennium ended 31 December 1997

Statement I

Income and expenditure and changes in fund balances for the biennium ended 31 December 1997

(United States dollars)

	Note	General-purpose	Special-purpose	Total	Total 1994-1995
INCOME					
Voluntary contributions (Schedules 1 & 2)		30,343,531	60,064,669	90,408,200	117,181,514
Cost-sharing contributions (Schedule 2)		-	2,334,528	2,334,528	2,438,056
Public donations	4	-	1,777,043	1,777,043	1,338,134
Interest income	5	6,536,802	2,177,815	8,714,617	9,295,111
Miscellaneous income	6	61,112	-	61,112	373,946
Total income		36,941,445	66,354,055	103,295,500	130,626,761
EXPENDITURE					
Programme budget (Schedule 3)		11,164,631	58,935,319	70,099,950	102,718,320
Programme support costs - agencies (Schedule 4)		415,153	1,890,657	2,305,810	5,026,717
Biennial support budget (Schedule 5)		31,948,992	-	31,948,992	30,609,463
Total expenditure		43,528,776	60,825,976	104,354,752	138,354,500
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE		(6,587,331)	5,528,079	(1,059,252)	(7,727,739)
Other changes in fund balances:					
Savings on prior biennium's obligations		1,144,770	124,114	1,268,884	780,211
Transfers (to)/ from reserves	7	(8,016,200)	6,040,500	(1,975,700)	1,102,500
Refund to donors	8	(55,761)	(184,894)	(240,655)	(4,101,223)
Inter-fund adjustments	9	5,402,281	(5,402,281)	-	-
Provision for allocations	10	(1,500)	(853,300)	(854,800)	-
Net changes in fund balances		(8,113,741)	5,252,218	(2,861,523)	(9,946,251)
Fund Balances, 1 January		39,804,403	23,533,508	63,337,911	73,284,162
FUND BALANCES, 31 DECEMBER		31,690,662	28,785,726	60,476,388	63,337,911

Statement II

Assets, liabilities and reserves and fund balances at 31 December 1997

(United States dollars)

	Note	General-purpose	Special-purpose	Total	Total 1995
ASSETS					
Cash and term deposits	11	39,025,489	37,848,032	76,873,521	80,082,490
Operating funds advanced to executing agencies (Schedule 6)		1,338,305	11,269,966	12,608,271	14,781,518
Accounts receivable					
Voluntary contributions receivable (Schedule 1)		6,189,861	-	6,189,861	1,103,979
Accrued interest		1,465,648	-	1,465,648	740,566
Other accounts receivable and deferred charges	12	678,014	-	678,014	389,697
TOTAL ASSETS		48,697,317	49,117,998	97,815,315	97,098,250
LIABILITIES					
Deferred income	13	350,000	15,161,180	15,511,180	12,995,885
Unliquidated obligations	14	1,974,156	4,317,792	6,291,948	7,308,967
Accounts payable					
Due to United Nations General Fund		841,103	-	841,103	1,852,328
Other accounts payable	15	1,841,396	853,300	2,694,696	1,578,859
Total liabilities		5,006,655	20,332,272	25,338,927	23,736,039
RESERVES AND FUND BALANCES					
Reserves	7				
Operational reserve		12,000,000	-	12,000,000	9,486,700
Reserve for programme support costs		-	-	-	537,600
		12,000,000	-	12,000,000	10,024,300
Fund balances	16				
Programme budget commitments for next biennium		17,944,900	28,785,726	46,730,626	43,450,208
Balance available for future programme activities		13,745,762	-	13,745,762	19,887,703
		31,690,662	28,785,726	60,476,388	63,337,911
Total reserves and fund balances		43,690,662	28,785,726	72,476,388	73,362,211
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		48,697,317	49,117,998	97,815,315	97,098,250

Statement III

Cash flow for the biennium ended 31 December 1997

(United States dollars)

	General-purpose	*Special-purpose*	*Total*	*Total 1994-1995*
CASH FLOWS FROM OPERATING ACTIVITIES				
Net excess (shortfall) of income over expenditure	(6,587,331)	5,528,079	(1,059,252)	(7,727,739)
Decrease (Increase) in net operating funds advanced to executing agencies	2,617,289	(444,044)	2,173,245	4,656,830
Decrease (Increase) in contributions receivable	(5,085,882)	-	(5,085,882)	4,303,109
(Increase) in other accounts receivable	(288,317)	-	(288,317)	(210,695)
Increase (Decrease) in deferred income	350,000	2,165,295	2,515,295	(15,468,645)
(Decrease) in unliquidated obligations	(642,301)	(374,718)	(1,017,019)	(7,511,196)
Increase in other accounts payable	262,537	853,300	1,115,837	1,345,019
Less: interest income	(6,536,802)	(2,177,815)	(8,714,617)	(9,295,111)
Net cash (outflow) from operating activities	(15,910,807)	5,550,097	(10,360,710)	(29,908,428)
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase (Decrease) in amount due to United Nations general fund	(1,011,225)	-	(1,011,225)	312,469
(Increase) in accrued interest	(725,082)	-	(725,082)	(161,491)
Add: Interest income	6,536,802	2,177,815	8,714,617	9,295,111
Net cash inflow from investing activities	4,800,495	2,177,815	6,978,310	9,446,089
CASH FLOWS FROM OTHER SOURCES				
Savings on prior biennium's obligations	1,144,771	124,115	1,268,886	780,211
Refund to donors	(55,761)	(184,894)	(240,655)	(4,101,223)
Inter-fund adjustments	5,402,281	(5,402,281)	-	-
(Increase) in provision for allocations	(1,500)	(853,300)	(854,800)	-
Increase in Programme Support Reserve	-	-		175,400
Net cash (outflow) from other sources	6,489,791	(6,316,360)	173,431	(3,145,612)
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(4,620,521)	1,411,552	(3,208,969)	(23,607,951)
CASH AND TERM DEPOSITS, 1 JANUARY	43,646,011	36,436,479	80,082,490	103,690,441
CASH AND TERM DEPOSITS, 31 DECEMBER	39,025,490	37,848,031	76,873,521	80,082,490

Schedule 1

Status of general-purpose contributions for the biennium ended 31 December 1997

(United States dollars)

Contributor	Unpaid pledges as at 1 January 1996 (a)	Income: Pledges for 1996-1997 and adjustment of prior pledges (b)	Total contributions collected during 1996-1997 (c)	Contributions collected for 1998-1999 (d)	Loss/(gain) on exchange (e)	Unpaid pledges as at 31 December 1997 (a+b-c+d-e)
Argentina	-	300,000	-	-	-	300,000
Australia	-	1,148,611	1,134,524	-	14,087	-
Austria	-	604,727	604,727	-	-	-
Bangladesh	-	2,000	1,000	-	-	1,000
Barbados	-	2,000	2,000	-	-	-
Belgium	-	90,356	90,356	-	-	-
Benin	-	1,723	1,723	-	-	-
Bolivia	25,000	(15,000)	-	-	-	10,000
Brazil	14,124	15,000	15,000	-	-	14,124
Brunei Darussalam	-	-	50,000	50,000	-	-
Canada	-	500,000	500,000	-	-	-
China	90,000	30,000	-	-	-	120,000
Côte d'Ivoire	789	(789)	-	-	-	-
Czech Republic	-	35,472	34,011	-	1,461	-
Denmark	-	1,173,031	1,173,031	-	-	-
Egypt	-	1,297	1,294	-	3	-
Finland	-	75,000	75,000	-	-	-
France	-	1,126,721	1,126,721	-	-	-
Germany	-	1,568,888	1,499,964	-	68,924	-
Greece	-	10,000	10,000	-	-	-
Holy See	-	1,000	1,000	-	-	-
Hong Kong, China	-	15,516	15,516	-	-	-
Iceland	3,062	4,426	7,404	-	84	-
India	40,000	140,000	120,000	-	-	60,000
Indonesia	-	54,000	54,000	-	-	-
Ireland	-	180,938	180,938	-	-	-
Israel	-	30,000	30,000	-	-	-
Italy	-	5,460,625	5,460,625	-	-	-
Jamaica	-	2,103	2,103	-	-	-
Japan	-	9,200,000	5,200,000	-	-	4,000,000
Kenya	2,259	(2,259)	-	-	-	-

Contributor	Unpaid pledges as at 1 January 1996 (a)	Income: Pledges for 1996-1997 and adjustment of prior pledges (b)	Total contributions collected during 1996-1997 (c)	Contributions collected for 1998-1999 (d)	Loss/(gain) on exchange (e)	Unpaid pledges as at 31 December 1997 (a+b-c+d-e)
Kuwait	5,000	10,000	10,137	-	(137)	5,000
Lao People's Democratic Republic	-	2,000	-	-	-	2,000
Lebanon	5,000	12,000	12,000	-	-	5,000
Liechtenstein	11,207	-	9,756	-	1,451	-
Luxembourg	-	123,784	119,258	-	4,526	-
Madagascar	5,200	(2,600)	-	-	-	2,600
Malaysia	-	40,000	40,000	-	-	-
Malta	-	561	561	-	-	-
Mexico	-	100,000	400,000	300,000	-	-
Morocco	6,000	5,000	11,000	-	-	-
Netherlands	-	1,054,056	1,032,443	-	21,613	-
New Zealand	-	84,895	85,825	-	(930)	-
Norway	-	342,489	342,489	-	-	-
Pakistan	-	1,293	1,287	-	6	-
Panama	750	8,250	9,000	-	-	-
Peru	-	10,000				10,000
Philippines	-	5,000	5,000	-	-	-
Portugal	-	33,000	22,000	-	-	11,000
Republic of Korea	-	233,000	229,000	-	-	4,000
Romania	588	1,264	1,151	-	415	286
Saudi Arabia	-	100,000	100,000	-	-	-
Singapore	-	10,000	10,000	-	-	-
Slovenia	-	725	-	-	124	601
South Africa	-	10,565	10,565	-	-	-
Spain	-	295,625	295,625	-	-	-
Sweden	-	2,405,261	2,405,261	-	-	-
Switzerland	-	447,544	447,544	-	-	-
Thailand	-	20,000	20,000	-	-	-
Tunisia	-	2,100	1,067	-	116	917
Turkey	-	250,000	250,000	-	-	-
United Kingdom of Great Britain and Northern Ireland	-	633,933	300,600	-	-	333,333
United States of America	885,000	2,348,400	1,933,400	-	-	1,300,000
Venezuela	10,000	-	-	-	-	10,000
Total	1,103,979	30,343,531	25,495,906	350,000	111,743	6,189,861

Schedule 2

Status of special-purpose contributions for the biennium ended 31 December 1997

(United States dollars)

Contributor	Prior-period collections for 1996-1997	Total contributions collected during 1996-1997	Collections for 1998-1999	Total contribution income for 1996-1997
Voluntary				
Australia		306,653	-	306,653
Austria		820,000	-	820,000
Belgium		752,190	-	752,190
Canada		500,000	-	500,000
Denmark	1,716,320	2,737,066	(3,462,931)	990,455
European Commission		1,021,814	-	1,021,814
Finland		320,000	-	320,000
France		1,638,039	-	1,638,039
Germany		4,883,311	-	4,883,311
Ireland		278,737	-	278,737
Italy	9,772,385	11,167,982	(8,279,406)	12,660,961
Japan		1,467,049	-	1,467,049
Netherlands		863,704	-	863,704
Norway		2,598,861	-	2,598,861
Spain		689,791	-	689,791
Sweden	1,507,180	6,414,732	(3,418,843)	4,503,069
Switzerland		849,411	-	849,411
United Kingdom of Great Britain and Northern Ireland	-	15,191,167	-	15,191,167
United States of America		9,729,457	-	9,729,457
Total voluntary	12,995,885	62,229,964	(15,161,180)	60,064,669
Cost-sharing				
Bolivia		291,453	-	291,453
Brazil		1,759,125	-	1,759,125
Colombia		283,950	-	283,950
Total cost-sharing	-	2,334,528	-	2,334,528

Schedule 3

Status of the approved programme budget for the biennium ended 31 December 1997

(United States dollars)

Activity	General-purpose			Special-purpose			Total 1996-1997		
	Budget	Expenditure	Balance	Budget	Expenditure	Balance	Budget	Expenditure	Balance
By region									
Sub-Saharan Africa	1,463,500	878,189	585,311	3,395,400	3,663,594	(268,194)	4,858,900	4,541,783	317,117
North Africa and the Middle East	218,300	44,717	173,583	1,285,800	770,066	515,734	1,504,100	814,783	689,317
Central and Eastern Europe	1,516,900	1,272,321	244,579	3,762,100	3,886,755	(124,655)	5,279,000	5,159,076	119,924
West and Central Asia	1,552,600	781,999	770,601	9,568,300	9,094,126	474,174	11,120,900	9,876,125	1,244,775
South Asia	485,900	496,131	(10,231)	1,844,400	1,483,933	360,467	2,330,300	1,980,064	350,236
East Asia and the Pacific	2,969,100	2,500,297	468,803	8,267,800	8,178,677	89,123	11,236,900	10,678,974	557,926
Latin America and the Caribbean	1,328,200	1,811,629	(483,429)	22,606,100	22,904,759	(298,659)	23,934,300	24,716,388	(782,088)
Intercountry	3,812,400	3,379,348	433,052	10,466,100	8,953,409	1,512,691	14,278,500	12,332,757	1,945,743
Total	13,346,900	11,164,631	2,182,269	61,196,000	58,935,319	2,260,681	74,542,900	70,099,950	4,442,950
By sector									
Prevention and reduction of drug abuse	4,684,400	4,498,822	185,578	16,453,100	15,726,516	726,584	20,410,916	20,225,338	185,578
Elimination of illicit crops	2,366,800	1,857,200	509,600	17,941,100	19,526,516	(1,585,416)	21,893,316	21,383,716	509,600
Suppression of illicit drug trafficking	2,460,100	1,899,374	560,726	15,293,400	12,844,102	2,449,298	15,304,202	14,743,476	560,726
Intersectoral	3,835,600	2,909,235	926,365	11,508,400	10,838,185	670,215	14,673,785	13,747,420	926,365
Total	13,346,900	11,164,631	2,182,269	61,196,000	58,935,319	2,260,681	74,542,900	70,099,950	4,442,950
By execution modality									
UNDCP	6,438,800	4,873,371	1,565,429	18,462,700	16,994,587	1,468,113	24,901,500	21,867,958	3,033,542
Agencies	6,175,000	4,795,684	1,379,316	27,143,200	24,816,249	2,326,951	33,318,200	29,611,933	3,706,267
National	733,100	1,495,576	(762,476)	15,590,100	17,124,483	(1,534,383)	16,323,200	18,620,059	(2,296,859)
Total	13,346,900	11,164,631	2,182,269	61,196,000	58,935,319	2,260,681	74,542,900	70,099,950	4,442,950

Schedule 4

Programme expenditure and programme support costs by executing agencies and source of funds for the biennium ended 31 December 1997

(United States dollars)

	Programme expenditure			*Programme support*									
				Agency				*UNDCP*				*Total*	
	General purpose	*Special purpose*	*Total*	*General purpose*	*Special purpose*	*Total*	*%*	*General purpose*	*Special purpose*	*Total*	*%*	*Amount*	*%*
A. UNDCP implementation													
UNDCP	**4,873,371**	**16,994,587**	**21,867,958**	-	-	-	-	**611,864**	**2,159,946**	**2,771,810**	*13*	**2,771,810**	*13*
B. Agency implementation													
United Nations entities													
CICP	-	214,149	214,149	-	21,415	21,415	*10*	-	6,424	6,424	*3*	27,839	*13*
DDSMS	-	33,113	33,113	-	3,642	3,642	*11*	-	-	-	-	3,642	*11*
ESCAP	257,822	379,389	637,211	33,518	49,321	82,839	*13*	-	-	-	-	82,839	*13*
ILANUD	250,561	-	250,561	30,091	-	30,091	12	973	-	973	-	31,064	*12*
UNAIDS	-	-	-	-	-	-	-	-	-	-	-	-	-
UNFPA	-	40,622	40,622	-	-	-	-	-	5,291	5,291	*13*	5,291	*13*
UNICEF	-	130,200	130,200	-	7,800	7,800	*6*	-	-	-	-	7,800	*6*
UNV	-	-	-	-	-	-	-	-	-	-	-	-	-
UNOPS	2,626,454	13,001,386	15,627,840	196,984	978,295	1,175,279	*8*	139,801	641,195	780,996	*5*	1,956,275	*13*
United Nations specialized agencies													
FAO	31,858	828,838	860,696	4,157	108,178	112,335	*13*	-	-	-	-	112,335	*13*
ILO	603,653	1,348,437	1,952,090	78,476	175,297	253,773	*13*	-	-	-	-	253,773	*13*
UNESCO	170	13,467	13,637	22	1,751	1,773	*13*	-	-	-	-	1,773	*13*
UNIDO	651,023	4,657,650	5,308,673	26,313	217,882	244,195	*5*	58,922	382,221	441,143	*8*	685,338	*13*
WHO	29	427,038	427,067	4	53,000	53,004	*12*	-	-	-	-	53,004	*12*
Intergovernmental organizations													
CCLEC	87,916	125,413	213,329	-	-	-	-	11,429	2,418	13,847	*6*	13,847	*6*
CE	47,080	-	47,080	3,296	-	3,296	-	-	-	-	-	3,296	-
ECSWPR	-	50,552	50,552	-	6,572	6,572	*13*	-	-	-	-	6,572	*13*
ICPO/Interpol	60,000	665,000	725,000	-	-	-	-	-	-	-	-	-	-
WCO	5,784	169,393	175,177	-	-	-	-	-	9,479	9,479	*5*	9,479	*5*

	Programme expenditure			Programme support									
				Agency				UNDCP				Total	
	General purpose	Special purpose	Total	General purpose	Special purpose	Total	%	General purpose	Special purpose	Total	%	Amount	%
Non-governmental organizations													
AMHS	-	118,555	118,555	-	15,412	15,412	13	-	-	-	-	15,412	13
ACFR	-	547,556	547,556	-	27,378	27,378	5	-	13,281	13,281	2	40,659	7
CCSA	-	28,287	28,287	-	2,829	2,829	10	-	849	849	3	3,678	13
ENDA	-	116,600	116,600	-	8,200	8,200	7	-	-	-	-	8,200	7
IFND	-	98,222	98,222	-	9,822	9,822	10	-	2,950	2,950	3	12,772	13
IPS	41,600	-	41,600	-	-	-	-	-	-	-	-	-	-
CEIS	-	352,000	352,000	-	9,500	9,500	3	-	-	-	-	9,500	3
NCA	31,186	1,247,943	1,279,129	-	-	-	-	4,054	82,888	86,942	7	86,942	7
SAPS	-	208,739	208,739	-	-	-	-	-	27,136	27,136	-	27,136	-
RFHL	111,674	13,700	125,374	5,618	685	6,303	5	-	1,096	1,096	1	7,399	6
UWI	(11,126)	-	(11,126)	(1,112)	-	(1,112)	10	-	-	-	-	(1,112)	10
Total, B	**4,795,684**	**24,816,249**	**29,611,933**	**377,367**	**1,696,979**	**2,074,346**	**7**	**215,179**	**1,175,228**	**1,390,407**	**5**	**3,464,753**	**12**
C. National implementation													
Government	1,491,514	16,236,687	17,728,201	37,505	179,259	216,764	1	38,538	303,940	342,478	2	559,242	3
Non-governmental organizations													
CECAFEC	4,062	125,238	129,300	281	8,719	9,000	7	244	2,096	2,340	2	11,340	9
CESI	-	81,100	81,100	-	5,700	5,700	7	-	-	-	-	5,700	7
SESI	-	681,458	681,458	-	-	-	-	-	44,600	44,600	7	44,600	7
Total, C	**1,495,576**	**17,124,483**	**18,620,059**	**37,786**	**193,678**	**231,464**	**1**	**38,782**	**350,636**	**389,418**	**2**	**620,882**	**3**
Total, A, B and C	**11,164,631**	**58,935,319**	**70,099,950**	**415,153**	**1,890,657**	**2,305,810**	**3**	**865,825**	**3,685,810**	**4,551,635**	**6**	**6,857,445**	**10**

Note. Programme support charges vary according to agreements reached with different agencies with a maximum combined amount of 13 per cent (5 per cent for national execution) as explained in note 2 (1) to the financial statements. The current programme support arrangement was put into full effect only in 1997 after its approval by the Commission on Narcotic Drugs in its resolution 6 (XL) dated 24 March 1997.

Schedule 5

Status of the approved biennial support budget for the biennium ended 31 December 1997

(United States dollars)

Item		Budget 1996-1997	1996-1997 Expenditure			Expenditure 1994-1995	Unencumbered balance 31.12.97
			Disbursements	Unliquidated obligations	Total		
By appropriation line							
Programme support							
Country level		15,378,700	15,145,310	306,794	15,452,104	15,378,750	(73,404)
Headquarters		9,081,500	8,225,735	245,335	8,471,070	8,190,815	610,430
	Subtotal	24,460,200	23,371,045	552,129	23,923,174	23,569,565	537,026
Management and Administration		7,812,200	7,522,873	502,945	8,025,818	7,039,898	(213,618)
	Total	32,272,400	30,893,918	1,055,074	31,948,992	30,609,463	323,408
By location							
Country level		15,378,700	15,145,310	306,794	15,452,104	15,378,750	(73,404)
Headquarters		16,893,700	15,748,608	748,280	16,496,888	15,230,713	396,812
	Total	32,272,400	30,893,918	1,055,074	31,948,992	30,609,463	323,408
By object of expenditure							
Staff and other personnel costs		24,993,700	23,872,472	596,129	24,468,601	23,446,267	525,099
Travel		1,479,400	1,295,541	32,681	1,328,222	1,649,656	151,178
Contractual services		113,300	51,962	5,714	57,676	165,309	55,624
Operating expenses		3,525,100	3,580,174	103,315	3,683,489	2,767,352	(158,389)
Acquisitions		575,900	721,214	17,115	738,329	1,182,583	(162,429)
Fellowships, grants, other		1,585,000	1,372,555	300,120	1,672,675	1,398,296	(87,675)
	Total	32,272,400	30,893,918	1,055,074	31,948,992	30,609,463	323,408

Schedule 6

Status of operating funds advanced to agencies at 31 December 1997

(United States dollars)

	Agencies	Operating funds with agencies 1 January 1996 (a)	Advances (b)	Miscellaneous income (c)	Disbursements (d)	Operating funds with agencies 31 December 1997 (a+b+c-d)
United Nations entities	CICP	-	240,900	-	(152,438)	88,462
	DESA	(61,994)	231,100	-	(104,508)	64,598
	ESCAP	26,031	664,086	-	(625,991)	64,126
	ESCWA	1,350	(1,367)	17	-	-
	ILANUD	15,315	386,600	(429)	(280,652)	120,834
	UNAIDS	-	106,900	-	-	106,900
	UNDP/National	9,546,677	13,348,475	(1,783)	(17,944,965)	4,948,404
	UNDP/Other	(498,551)	4,837,523	-	(4,354,170)	(15,198)
	UNDP/WA [a]	1,497,049	9,107,990	24,876	(7,278,860)	3,351,055
	UNFPA	-	49,055	-	(40,622)	8,433
	UNHCR	6,913	(6,913)	-	-	-
	UNICEF	(72,000)	481,900	-	(138,000)	271,900
	UNOPS	2,449,164	16,366,917	5,560	(18,258,165)	563,476
	UNV	-	162,200	-	-	162,200
United Nations specialized agencies	FAO	229,071	1,546,704	57,761	(978,052)	855,484
	ILO	280,343	2,073,667	36,913	(2,259,027)	131,896
	UNESCO	90,941	-	500	(18,819)	72,622
	UNIDO	482,191	4,496,115	71,803	(5,453,705)	(403,596)
	WHO	(12,129)	721,769	19,509	(579,425)	149,724
Inter-governmental organizations	CCLEC	13,917	208,154	(1,002)	(213,329)	7,740
	CE	23,512	160,576	1,492	(71,955)	113,625
	ECSWPR	6,606	96,770	-	(54,449)	48,927
	ICPO/Interpol	(1,600)	726,600	-	(725,000)	-
	OAS	-	51,500	-	-	51,500
	OAU	-	97,900	-	-	97,900
	WCO	85,691	148,550	-	(167,059)	67,182
Non-governmental organizations	ACFR	-	609,619	911	(574,934)	35,596
	AENOC	(5,100)	5,100	-	-	-
	AMHS	43,593	597,248	3,886	(112,118)	532,609
	CCSA	-	202,975	660	(31,116)	172,519
	CECAFEC	(8,650)	126,960	(10)	(138,300)	(20,000)
	CEIS	7,575	361,450	20	(369,045)	-
	CERID	(888)	-	888	-	-
	CESE	80,356	759	5,685	(86,800)	-
	ENDA	482	124,300	18	(124,800)	-
	Gilead Church	175,080	-	-	-	175,080
	ICAA	(157)	157	-	-	-
	IFND	-	271,955	-	(108,044)	163,911
	IPS	47,538	43,600	(38)	(91,100)	-
	NCA	(94,580)	1,414,994	-	(1,279,129)	41,285
	NCSWT	(9,414)	9,414	-	-	-
	RFHL	(1,290)	167,650	379	(131,677)	35,062
	SAPS	-	198,400	2,330	(189,343)	11,387
	SESI	453,996	613,731	146,359	(681,458)	532,628
	UWI	(15,520)	74,837	3	(59,320)	-
Total		14,781,5[illegible]8	61,126,820	376,308	(63,676,375)	12,608,271

[a] WA = working arrangement.

Notes to the financial statements

Note 1. Statement of aims

The United Nations International Drug Control Programme aims to ensure coherent and effective action by the international community against drug abuse and illicit drug trafficking. It supports development of international norms and standards; ensures harmonized action by the United Nations system; facilitates exchange of information, dialogue and cooperation among Governments at the subregional, regional and global levels; and provides technical advice and assistance to Governments in support of a balanced approach targeting both illicit supply and demand.

Note 2. Accounting policies

The following are the significant accounting policies of the Fund of the United Nations International Drug Control Programme:

(a) Rules and procedures

The accounts of the Fund are maintained in accordance with the Financial Regulations and Rules of the United Nations and in conformity with the United Nations System Accounting Standards (A/48/530) as recognized by the General Assembly in its resolution 48/216 C of 23 December 1993 and subsequent revisions.

(b) Accounting convention

The accounts are prepared on the historical cost basis, modified to the extent that the cost of all property acquired is charged as an expense in the year of purchase.

The financial period is a biennium and consists of two consecutive calendar years.

(c) Contingent liabilities

Provision for repatriation grant entitlements is calculated on the basis of 8 per cent of net base pay for all personnel funded from the Fund (note 15). In addition to these specific provisions, it is considered prudent to set aside under the operational reserve estimated costs likely to arise from the contingency of all personnel under the fund having to separate from service at the same time (note 7).

(d) Unliquidated obligations

Unliquidated obligations are expenditures based on firm obligations entered into, but not disbursed, in the financial period. Unliquidated obligations for the current period in respect of all technical cooperation activities remain valid for 12 months following the end of the period to which they relate.

Income

(e) Special-purpose contributions

Special-purpose contributions are recorded as income when received. For special-purpose contributions received in advance, income is deferred to future periods as otherwise

their exceptional size and nature would materially distort operational results and fund balances.

(f) General-purpose contributions

General-purpose contributions are recorded on the basis of written pledges. Pledges are recorded against a written commitment by a prospective donor to pay a monetary contribution at a specified time or times. Unpaid pledges are cancelled when a written request for cancellation is received. In addition, unpaid pledges older than five years are cancelled when no written confirmation is received in response to reminders.

(g) Miscellaneous income

Refunds of expenditures charged to prior financial periods, net gains on exchange and proceeds from the sale of surplus property, are credited to miscellaneous income.

(h) Interest income

Interest income is based only on amounts received and accrued from cash and term deposits relating to the financial period. Interest due from cash and term deposits made in the financial period but not maturing until future periods is recorded as accounts receivable.

(i) General-purpose and special-purpose funds

General-purpose funds arise from income that is not earmarked for a specific purpose or project. They are used to fund the approved biennial support budget as well as those programme activities not funded by special-purpose funds. Special-purpose funds arise from income that is earmarked either for specific programmes, projects or purposes within broader geographic and thematic sectors.

(j) Cash and term deposits

Funds on deposit in interest-bearing bank accounts, time deposits and call accounts are shown as cash and term deposits as they are all placed within a 12-month period in line with the United Nations investment policies and guidelines.

(k) Translation of currencies

The financial statements of the Fund are presented in United States dollars, which is the currency best suited to its operations. As per United Nations System Accounting Standards, transactions in currencies other than United States dollars are recorded in United States dollars by applying the United Nations operational rate of exchange at the time of the transaction. The policy for translating balance sheet items maintained in other currencies is also in accordance with United Nations System Accounting Standards. For monetary items (that is, money held and assets and liabilities and any other balances to be received or paid in fixed or determinable amounts of money) and non-monetary items carried at fair value, in accounts maintained in other currencies, the translation into United States dollars is done at the applicable United Nations rates of exchange in effect at the date of the financial statements. Non-monetary items carried at historical cost in other currencies are translated using the United Nations operational rate of exchange at the date of the transaction. On the closing of the accounts at the end of each financial period, if the balance of the exchange accounts reflects a net loss on exchange, it is debited to the budgetary account. If there is a net gain, this is credited to miscellaneous income.

(l) Programme support costs

In accordance with United Nations practice and as authorized by its governing body, the Commission on Narcotic Drugs, the Programme charges a programme support rate of up to 13 per cent for programme/project execution. In case the programme/project is shared between the Programme and an associated agency, programme support charges are also accordingly shared between both organizations with a combined amount not exceeding 13 per cent. For nationally executed programmes/projects, a maximum of 5 per cent is charged for programme support. Programme support costs paid in the biennium to agencies under this arrangement are charged to programme expenditure in the financial statements as they constitute an outflow of funds to the Programme. Programme support costs retained by the Programme under this arrangement are not charged to programme expenditure since they have been incurred under the biennial support budget. Full details of the amounts retained by the Programme are disclosed by funding source in schedule 4 to the financial statements. The amount retained out of programme activities funded by special-purpose income, however, is shown as a transfer from special to general-purpose funds being the effective recovery of these costs charged to general-purpose expenditure through the biennial support budget but earned from special-purpose income. For 1996–1997, this adjustment in the fund balances amounts to $3,685,810 (schedule 4).

Note 3. Regular budget expenditure

The total expenditure of $104,354,752 in statement I does not include the following amounts for 1996–1997 financed from the regular budget of the United Nations (in United States dollars).

	1996–1997	*1994–1995*
Staff and other personnel costs	13 593 692	13 086 271
Travel on official business	955 185	1 067 208
Contractual services	491 288	433 714
General operating expenses	204 767	180 980
Acquisitions	176 306	32 607
Total	**15 421 238**	**14 800 780**

Note 4. Public donations

Public donations received in 1996–1997 were as follows (in United States dollars):

	1996–1997	*1994–1995*
Drug Abuse Prevention Centre, Japan	1 000 000	923 529
Society of Japanese Pharmacopoeia	228 170	—
Fonds de Lutte contre le Trafic des Stupéfiants	189 805	—
Aga Khan Development Network	30 500	—
Commonwealth Secretariat	24 469	—
Sponsors of the International Day against Drug Abuse, Brazil	102 177	—
Sponsors of the First National Drug Abuse Prevention Campaign, Brazil	201 922	—
Social Service Industry (SESI), Brazil	—	414 605
Total	**1 777 043**	**1 338 134**

Note 5. Interest income

Total interest earned in 1996–1997 amounted to $8,714,617. Special-purpose and general-purpose funds are not invested separately. Until 1995, the total interest income from investments was apportioned between general-purpose and special-purpose funds in accordance with the ratio of their respective average fund balance. However, the amount of interest apportioned to the special-purpose fund needs to be assigned more precisely to the individual trust funds comprising the fund balance. In addition, not every trust fund agreement specifies a requirement to accrue interest or specially account for it. From 1996 onwards, therefore, where donor funding arrangements specifically require accruing interest or donors have otherwise indicated for an account of accumulated interest, the relevant special-purpose trust fund has been credited interest over the period of its use and on the balance outstanding at the end of 1997. On that basis, in 1996–1997, interest income of $2,177,815 is assigned to special-purpose trust funds as per specific donor requirements. The balance of $6,536,802 interest earned for 1996–1997 is taken to the general-purpose fund.

Note 6. Miscellaneous income

Total miscellaneous income in 1996–1997 was as follows (in United States dollars):

	1996–1997	*1994–1995*
Net gain on exchange	—	323 598
Proceeds from sale of equipment	8 000	—
Proceeds from sale of drug identification kits	53 112	50 348
Total	**61 112**	**373 946**

Note 7. Operational reserve

Until 1995, an operating reserve of 15 per cent of annual expenditures (adjusted for programme support costs) was maintained amounting to $9,486,700 (general purpose: $3,446,200 and special purpose: $6,040,500) at 31 December 1995. Upon the recommendation of the Advisory Committee on Administrative and Budgetary Questions, this arrangement was reviewed in 1996 and in the light of actual reserve requirements, the Commission on Narcotic Drugs, as the Programme's governing body, approved the creation instead of a consolidated reserve of $12,000,000 ($11,500,000 from the general-purpose fund balance and $500,000 from the programme support reserve). The $6,040,500 special-purpose reserve has therefore been transferred back into the special-purpose fund to increase its programmable resources as special-purpose funds, by definition, cover specific project activities, which, once completed, require any remaining funds to be either returned or reprogrammed in line with donor wishes. Correspondingly the general-purpose reserve of $3,446,200 has been increased by $6,040,500, plus an additional $2,013,300 out of the general-purpose fund balance and $500,000 out of the programme support reserve to meet the approved consolidated level of $12,000,000. A balance of $37,600 remaining in the reserve for programme support costs has been transferred back to the general-purpose fund balance.

The movement in reserves is summarized below (in United States dollars):

	General-purpose	*Special-purpose*	*Total*
Reserves, 1 January 1996			
Operating	3 446 200	6 040 500	9 486 700
Programme support costs	537 600	—	537 600
	3 983 800	6 040 500	10 024 300
Transfers from fund balances	8 053 800	—	8 053 800
Transfers to fund balances	(37 600)	(6 040 500)	(6 078 100)
Net transfers (to)/from fund balances	8 016 200	(6 040 500)	1 975 700
Operational reserve, 31 December 1997	**12 000 000**	**—**	**12 000 000**

The operational reserve is estimated to cover the following contingencies (in United States dollars):

	Headquarters	*Country operations*	*Total*
Staff separation cost estimates as per the accounting policy on contingent liabilities (note 2 (c))	5 500 000	3 800 000	9 300 000
Less: Repatriation grant accruals already provided for (note 15)	(368 065)	—	(368 065)
Subtotal	**5 131 935**	**3 800 000**	**8 931 935**
Unforeseen shortfalls, uneven cash flows, unplanned costs and other final contingencies			3 068 065
Total			**12 000 000**

Note 8. Refunds to donors

In accordance with terms and conditions stipulated in funding agreements, donors were refunded amounts surplus to the requirements of specific projects which were completed.

Note 9. Inter-fund adjustments

Adjustments between funds included the following (in United States dollars):

	General-purpose	*Special-purpose*
Prior period general-purpose project expenditures funded retrospectively in 1996–1997 from special-purpose income	483 511	(483 511)
Programme support costs of the Programme incorrectly charged to general-purpose income in prior periods	1 232 960	(1 232 960)
Programme support costs of the Programme retained out of programme activities funded by special-purpose income (schedule 4 and note 2 (l))	3 685 810	(3 685 810)
Total	**5 402 281**	**5 402 281**

Note 10. Provision for allocations

A provision of $854,800 is made out of fund balances for unspent project budget allocations covering 1996–1997 activities. A corresponding amount is shown under accounts payable (note 15) for expenditures not reported in 1996–1997.

Note 11. Cash and term deposits

Cash included the following (in United States dollars):

	At 31 December 1997	*At 31 December 1995*
Cash in transit	—	5 177 900
Imprest	88 703	217 639
Convertible currency deposits	117 560	26 754
Interest-bearing bank deposits	76 663 818	74 650 000
Non-convertible currency deposits	3 440	10 197
Total	**76 873 521**	**80 082 490**

Note 12. Other accounts receivable

Accounts receivable included the following (in United States dollars):

	At 31 December 1997	*At 31 December 1995*
Education grant advances	271 841	132 120
Travel advances	91 292	—
Salary advances	141 236	157 913
Other receivables and deferred charges	173 645	99 664
Total	**678 014**	**389 697**

Note 13. Deferred income

Deferred income consists of contributions received in advance for future periods and included the following (in United States dollars):

	At 31 December 1997	*At 31 December 1995*
Brunei Darussalam	50 000	—
Denmark	3 462 931	1 716 320
Italy	8 279 406	9 772 385
Mexico	300 000	—
Sweden	3 418 843	1 507 180
Total	**15 511 180**	**12 995 885**

Note 14. Unliquidated obligations

Unliquidated obligations comprised the following (in United States dollars):

	At 31 December 1997	*At 31 December 1995*
Programme budget	5 236 874	6 752 681
Biennial support budget	1 055 074	556 286
Total	**6 291 948**	**7 308 967**

Note 15. Other accounts payable

Accounts payable included the following (in United States dollars):

	At 31 December 1997	*At 31 December 1995*
Repatriation grant accruals (note 2 (c))	368 065	260 168
Appendix D compensation accrual	—	37 411
Provision for allocations (note 10)	854 800	—
Experts payroll and other field expenses	1 416 436	1 037 715
Miscellaneous	55 395	243 565
Total	**2 694 696**	**1 578 859**

Note 16. Fund balances

Fund balances represent the unexpended resources of the Programme as at 31 December 1997. Net changes in these balances during 1996–1997 and commitments against them for 1998–1999 are summarized below (in United States dollars):

	General-purpose	*Special-purpose*	*Total*
Fund balance at 1 January 1996 committed under the 1996–1997 programme budget[a]	19 916 700	23 533 508	43 450 208
Balance at 1 January 1996 available for future programme activities	19 887 703	—	19 887 703
Total fund balance at 1 January 1996	**39 804 403**	**23 533 508**	**63 337 911**
Net changes in 1996–1997 (statement I)	(8 113 741)	5 252 218	(2 861 523)
Total fund balance at 31 December 1997	**31 690 662**	**28 785 726**	**60 476 388**
Commitments under the 1998–1999 programme budget[a]	17 944 900	28 785 726	46 730 626
Balance at 31 December 1997 available for future programme activities	**13 745 762**	**—**	**13 745 762**

[a] The final budget for 1996–1997 and the proposed initial budget for 1998–1999 as per Commission on Narcotic Drugs document E/CN.7/1997/14.

Note 17. Non-expendable inventory

In accordance with the accounting policy disclosed in note 2 (b), non-expendable equipment held by the Programme is not shown as an asset in the statement of assets and liabilities. As per inventory records, the purchase cost of these items at 31 December 1997 was as follows (in United States dollars):

Headquarters	3 175 684
Country offices	1 205 716
Total	**4 381 400**

Note 18. Disclosure as to participation in the United Nations Joint Staff Pension Fund

The Programme is a member organization participating in the United Nations Joint Staff Pension Fund, which the General Assembly established to provide retirement, death, disability and related benefits. The Pension Fund is a funded, defined, benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments that might become payable pursuant to article 36 of the Regulations of the Pension Fund.

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